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Title: A Framework for the Identification of Special Products within the WHO: A Closer
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A FRAMEWORK FOR THE IDENTIFICATION OF SPECIAL PRODUCTS WITHIN THE WTO: A CLOSER LOOK AT FOUR COMMODITIES IN BARBADOS

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ABSTRACT

The World Trade Organisation (WTO), which governs over 90% of world trade, is often perceived as the biggest threat to Barbadian agriculture. WTO Members are currently engaged in negotiations to determine the new commitments in key areas, including agriculture. This paper examines four domestically sensitive products- cabbages, tomato, carrot and sweet pepper- and the impact of WTO trade liberalisation on the production and trade patterns of these commodities over the past twelve years. Particular emphasis is placed on the issue of special and sensitive products and the implications for Barbados and Barbadian special/sensitive product. The aforementioned products are used as examples. The results can be used to refine strategic thinking regarding these four products and the results are of some relevance to other domestically sensitive commodities with similar characteristics. Furthermore, there are lessons to be learned as the CARICOM Single Market and Economy is deepened as CARICOM negotiates bi-lateral trade agreements with various countries/groupings

Keywords: Trade liberalization, Special products, Sensitive commodities

Introduction

Barbados is a signatory to a number of agreements, such as the World Trade Organisation (WTO), and the CARICOM Single Market and Economy (CSME), which have implications for the country's overall trade, including the trade in agricultural products. These agreements will also impact on the island's attainment of its food security objectives and the ability of some segments of the population, particularly the more vulnerable small farmers, to continue to earn a livelihood from the production of certain agricultural crops.

The WTO governs over 90% of world trade and involves all of Barbados' major trading partners. The WTO is also perceived to be one of the biggest threats to local agriculture, since a significant majority (over 70%) of Barbados' agricultural trade is conducted in the multilateral forum.

One of the critical concepts being discussed in the current negotiations on agriculture in the WTO is that of 'Special Products' or SPs, a modality that gives developing countries the right to afford more favourable treatment, primarily within WTO market access commitments, to those

products so designated as SPs. It has been a difficult, up-hill, battle for developing countries to gain the right to access of this measure, with the issue remaining under intense negotiations. For many developing countries, this SP modality is seen as the principal – sometimes only – mechanism that would afford some safeguards to key domestic agriculture products and by extension to the producers of these products.

This paper looks at four products in Barbados – cabbage, tomato, carrot and sweet pepper – and their potential as possible SPs. These products were selected due to the significant levels of domestic production, the vibrant trade in these products, and the links to food security, livelihood security (particularly that of small farmers) and rural development, which are also the three criteria for the designation of SPs in the WTO. These products were also treated 'specially' as they were among the products that underwent tariffication during the WTO Uruguay Round.¹ Among the

¹ Countries had the option of undergoing 'tariffication' – a process whereby quantitative and all other restrictions were converted to their tariff equivalent – or stipulating

highest sets of tariffs are applied to extra-regional imports of these products.² Using the four products under consideration, the paper also looks at some of the pertinent issues that need to be considered in the designation of other products as potential SPs and some of the factors that need to be examined by policy makers.

The paper is organised as follows: Section (I) outlines the data used and methodology employed; Section (II) elaborates on the concept of Special Products; Section (III) investigates the trade in the four products; Section (IV) looks at the potential of the selected products as SPs; followed by some additional issues for consideration in Section (V). Lastly, some conclusions are presented in Section (VI).

(I) Data Used and Methodology Employed

Import data for the four products – disaggregated into regional and extra-regional imports – as well as domestic production and resident population are the principal data used to provide some assessment of the four products. The period 1994 – 2005 is examined divided into two 6 year periods – 1994 – 1999 (pre liberalisation) and 2000 – 2005 post liberalisation – demarcated by Barbados' implementation of WTO compatible obligations in 2000. The entire year of 2000 is placed in the post liberalisation period, despite the fact that WTO liberalisation only occurred from the beginning of the second quarter. Although this 12 year period is insufficient to perform meaningful econometric analyses, given the dynamic nature and changing patterns of trade, a longer time series was not chosen in an effort to minimise the possible skewing effects associated with other trading arrangements, such as the North American Free Trade Agreement (NAFTA), which came into being in 1994 and changing domestic tastes and consumption patterns. This more recent data set was also believed

to be the most applicable to any analysis of the four products as potential SPs.

Simple averages are calculated for the various parameters for the two periods in order to trend out outlier records of any particular year. To minimise the effects of changing population, per capita estimates based on domestic population³ are calculated, where applicable. In addition to an examination of import trends, protection coefficients and competitiveness indices are calculated to assess the competitiveness of the local products and their sustainability as potential SPs.

(II) What are Special Products?

The term Special Products has come to be associated with the WTO Framework Agreement of 1 August 2004⁴ where 'Special Products' was mentioned in Paragraph 41 of Annex A of the Agreement. There is the need, however, to clearly define what is meant by 'special products' as this term could have slightly different connotations depending on the context within which it is used. It should be noted that Special Products within a domestic framework is not necessarily the same as those applicable in the WTO market access discussions. A clear understanding of the particular context of the phrase is necessary to assist countries in more informed product selection for WTO SP designation.

At the domestic level, the concept of special products was being utilised even before the WTO adoption of this particular concept and phrase. In Barbados, special products encompass those products to which differential treatment – whether from a domestic and/or trade policy specific orientation – is applied⁵. These are products that, due to their sensitivity in terms of domestic production, contribution to food security, the impact on employment, livelihood security, and contribution to Gross Domestic Product (GDP), among others, required special and differential treatment.

ceiling rates for products. Barbados opted to tariff all those products that were domestically produced and which were considered sensitive. Cabbages, tomatoes, carrots and sweet peppers were among the products that underwent tariffication.

² Rates are only applied on extra-regional imports since, as a member of CARICOM, Barbados is committed to intra-regional trade that is free from trade or other barriers.

³ Domestic population is here considered to be the resident population as at the end of the year in question.

⁴ *Doha Work Programme, Decision Adopted by the General Council on 1 August 2004*, document WT/L/579, dated 2 August 2004.

⁵ Within the WTO framework, all domestically produced products were targeted for special treatment and consequentially were tariffied.

Applicable trade policies included zero import quotas and strict licensing arrangements for imports (prior to the implementation of WTO compliant commitments), and, with the establishment of the WTO, tariffication and the implementation of maximum allowable bound rates of duty. Applicable domestic policies include a holistic incentives regime, access to inputs at duty free rates, and advisory support services. The four products under consideration benefited from a combination of the aforementioned policies and were also included in the basket of food security products created in the aftermath of the events of 11 September 2001⁶.

The term 'Special Products' or SPs, when used within the WTO specific context, has some subtle – but potentially significant – differences. The WTO Framework Agreement provides developing countries with access to this measure and specifically outlines the criteria for the designation of products as SPs – food security, livelihood security and rural development needs. In essence, this modality moves the framework for the identification and designation of products for differential treatment away from the ambit of individual countries into a more multilateral sphere where potential SPs, according to the text, would be required to meet the aforementioned criteria.

The WTO discussion on SPs means that countries, must, of necessity, be able to justify their SP selection according to the three criteria of food security, livelihood security and rural development needs, and simultaneously prioritise products to ensure that, above all, the most 'special' products – consistent with internally generated guidelines – are protected⁷. It is worth emphasizing that the WTO SP modality is contained in the agriculture market access pillar. This means that the potential 'more flexible treatment' for SP would be largely be found in market access instruments of tariffs and other border measures (e.g. possibly other duties and charges), tariff quota obligations, and access to the agriculture

safeguard mechanism. In contrast, domestic SPs are largely beneficiaries of policies that would normally be contained in the domestic support, and, to a lesser extent, the export competition agriculture modalities. However, more flexible treatment is not mandated in these other pillars. The aforementioned highlights the dichotomy between the treatment for domestic special products and WTO designated SPs. It is possible, of course, to designate a product for WTO SP treatment as well as provide whatever allowable domestic and other support for that product. However, the holistic environment for the development of special domestic products (more favourable treatment in trade and domestic policies), is not mandated.

The ranking of domestic special products, which should be based largely on objective assessment, is necessary if the region is to make the most of the measure for the benefit of the agricultural sector in the short and long term. The selected group of WTO SPs will have 'knock on' effects on other products, the vulnerability of some segments of the population, food security, other domestic policy objectives and possibly the long-term composition of the agricultural sector. Policy makers therefore need to ensure that, as far as possible, this group of potential SPs represents the core products that will benefit from further safeguards and which will have the greatest impact towards the social and economic objectives of the agricultural sector and indeed the country.

(III) Trade and Competitiveness of the Selected Products

Barbados removed the restrictive nature of its licensing regime and implemented WTO compliant bound rates of duty on selected agricultural products from 1st April 2000. Bound rates were applied to those locally produced commodities that were deemed "sensitive", and included the four products being investigated. These bound rates were applied to imports from all countries except those that are part of the CARICOM Common Market arrangement. In the case of those countries with which Barbados, as a member of CARICOM, has bi-lateral agreements, the application of the bound rate depends on how the product is classified and treated within the context of the respective bi-lateral agreements. The rates that are currently applied at the ports

⁶ This basket of products benefited from differential treatment in the heightened state of food insecurity and began the process towards the development of a comprehensive food security plan.

⁷ Prioritisation is necessary given that, within the context of negotiations, countries are highly unlikely to achieve their maximum positions/demands.

of entry are the final WTO bound rates under the current set of reduction commitments and, for the four selected products, are in excess of 100%, which was the general level at which agricultural products were bound by Barbados and other CARICOM countries.

The trade trends for the four selected products have implications for the possible designation of these products as SPs and the performance of domestic production in a further liberalised environment. The competitive position of local products is one of the strongest gauges for measuring the long term sustainability of these products and can directly affect their potential designation as SPs. Import performance can be used as a de facto measure of the revealed competitiveness of locally produced products and their likely competitiveness within a further liberalised environment.

Some of the domestic and trade policies implemented in Barbados were aimed at achieving an expansion of the agricultural sector – both in terms of output and the contribution to the national economy. A cursory examination of the declining trend in the contribution of the sector to GDP, however, would suggest that the policies have not borne sufficient fruit, particularly in the post liberalisation period. It also suggests a general lack of competitiveness in the sector as a whole.

In an increasingly globalised world, long-term trends in international prices are fast becoming the standard against which the competitiveness of locally produced goods is measured. Trade and domestic policies are used to 'level the playing field' and increase the competitiveness of the local product by raising the price of the foreign product. Such policies are critically important for the sector in small developing countries such as Barbados, where inherent characteristics preclude the attainment of certain factors, such as economies of scale, which impact on the competitiveness of a product.

The Nominal Protection Coefficient (NPC) is one measure used to gauge the effects of government intervention policies on particular products. The NPC is here defined as the amount by which the domestic price of a tradable output derives from its border price, that is, P_i^d/P_i^f (Tsakok, 1990). It is favoured here given that the

central investigation relates to the suitability of the four products as potential SPs and the fact that NPC, unlike other measures such as the Effective Protection Coefficient, does not take into account the input side. Interest is restricted to the effects of tariff border measures – for which NPC estimates are best suited. Sufficient information about the policy environment can be deduced from the NPC in this instance as the tariff measures for the four products affect mainly final prices as all inputs are duty free.

NPCs that are greater than one indicates that positive protection exists – that is government policies on the output side (border measures) favour domestic production – whilst NPCs less than one indicate the opposite – negative protection in favour of the imported products. For all four products, the calculated NPCs, based on 2005 price data, are positive (>2), indicating that there is high positive protection for local products. Policy intervention in the form of bound tariffs, have a significant effect on price structures and the incentives for local production – although a period on period examination of production reveals that, rather than increased production for all products, increased period on period production was recorded for only sweet peppers and tomatoes. In the case of Barbados, the absence of such intervention would likely result in the cessation of production of all these products and an undermining of the goals relating to domestic food security. It is however noteworthy that the calculated NPCs fall within the range of calculated protection coefficients for countries such as Japan and Korea (>2), and Switzerland (>3)⁸, which all have well articulated objectives relating to food security and the primacy of domestic production.

A related measure that can be used for assessing potential SPs is that of Competitiveness Indices. Competitiveness indices (CI_x) are defined as the difference between the domestic (P_x^d) and imported (P_x^f) prices of the particular product divided by the imported price ($CI_x = (P_x^d - P_x^f)/P_x^f$). A CI of less than zero, indicates that the domestic product is more competitive than the imported alternative at that particular

⁸ Lankes H.P., Market Access for Developing Countries, 2002 Finance and Development, September 2002, Volume 39 Number 3, International Monetary Fund.

stage of marketing, with the converse for positive CI values. A CI value of zero indicates no discernable difference between the domestic and imported products. Again, average wholesale domestic and landed imported prices from extra-regional sources for 2005 were used to calculate competitiveness indices for the selected products. It was assumed that these two sets of prices best reflected the price of the product at a similar stage of marketing. The calculation of CI_x^1 takes into account the bound rates on extra regional imports, where P_x^{f1} in Table 1 represents the average landed price of extra regional imports inclusive of the applicable bound rate.

The calculated CIs, with the addition of the relevant bound rates, were negative for sweet pepper and tomato indicating some competitiveness of the locally produced products with the addition of bound rates of duty. Positive CI results were recorded for cabbage and carrot, indicating that these domestically produced products were generally not competitive. Of note is the fact that CI results for all four products were positive (unfavourable) with the omission of the bound rates. This provides some indication that, in the event of full liberalisation, *ceteris paribus*, all four products under consideration are uncompetitive and domestic production of these products is highly likely to be undermined – hence the importance of a modality such as SPs for the agricultural sector in Barbados and the attainment of objectives such as food security⁹. The CI and CI^1 results are reproduced in Table 1 below.

Table 1: Competitiveness Indices Results

Product	P_x^d	P_x^f	P_x^{f1}	CI_x	CI_x^1
Tomato	6.45	2.39	7.15	1.70	-0.10
Sweet Pepper	6.88	2.73	7.10	1.52	-0.03
Cabbage	4.48	1.71	3.57	1.62	0.25
Carrot	6.45	1.77	4.60	2.64	0.40

Source: Author's calculations based on MAR data

Comparing period on period performance, import trade in the four commodities

⁹ It should be recalled that SPs would be eligible for more favourable treatment, including lower (if any) reductions in tariffs.

recorded growth in the post liberalisation period. It appears that increased demand for carrot and cabbage was satisfied through increased imports, rather than domestic production. Increased demand of sweet pepper, however, was satisfied predominantly through domestic production.

Imports of cabbage and carrot grew in excess of 300% and 150% respectively, compared to declines of 38% and 32% in domestic production of these products. The portion of domestically produced cabbage and carrot in total consumption declined from 92% and 83% respectively in the 1994 – 1999 period, to 59% and 56% respectively in the 2000 – 2005 period. Tomato and sweet pepper recorded more modest positive import growth changes of 23% and 15% respectively, whilst domestic production of these products increased by 11% and 109% respectively in the post liberalisation period.

Absolute import levels from CARICOM countries increased for three of the four products – cabbage, tomato, and sweet pepper. In each case, the change in import levels in the post liberalisation period was in excess of 100%, with tomato recoding an over 1200% increase. Carrot recorded the only decline in regional import performance – alluding to the general uncompetitiveness of regional production.

To minimise the skew that may result from population changes, per capita consumption was disaggregated according to source, and revealed some interesting comparisons for the four products. Per capita consumption of imported cabbage (all sources) increased in the post WTO liberalisation period, largely at the expense of domestic production. In the pre-liberalisation period, domestic production accounted for, on average, 92% of domestic consumption. This percentage declined to an average 59% over the period 2000 – 2005. In analysing cabbage as a potential SP, the future impact of the revealed declining importance of domestically produced cabbage in overall consumption needs to be taken into account. If the current trend holds, and in the absence of successful counteracting domestic policy to stimulate production and consumption of locally produced cabbage, there is likely to be further marginalisation of domestic production and per capita consumption of domestically produced cabbage. In this

case, SP designation would provide only notional, but ineffective, protection.

Carrot also exhibited a similar trend, as increases in extra-regional imports correlated with the decline in the position of domestic production within overall consumption. Extra-regional imports increased from 17% during the 1994 – 1999 period to 44% in the 2000 – 2005 period, with domestic production as a percentage of overall consumption declining from 83% to 56%. It appears that the future of domestic production of cabbage and carrot – at least as it relates to overall domestic per capita consumption is at risk, even assuming maintenance of the status quo.

In contrast, domestic production of tomato and sweet pepper held their own in the recent trade liberalisation period, with domestic production accounting for 82% and 80% respectively in the two demarcated periods. For tomato, the share of consumption from extra-regional sources declined from 18% to 13% - which may have been occasioned by the near 200% tariff imposed on extra-regional imports. Similarly, the proportion of domestic production of sweet pepper in overall consumption increased from 1% (1994 – 1999) to 12% (2000 – 2005), with good prospects for continued growth in the future.

Contrary to local fears, WTO trade liberalisation has not had a detrimental effect on all local production. As with most trade arrangements, the effects, at least measured by the four commodities under consideration, are mixed. However, all four products are uncompetitive without the addition of bound rates. Policy makers need to utilise whatever results are produced to, where possible, implement measures to mitigate the negative effects on those domestic commodities that will be designated as SPs. In the case of tomato, for example, the relatively high tariff on extra-regional imports likely protected domestic production, whilst the domestic efforts aimed at promoting technology such as greenhouse and higher yielding sweet pepper varieties, may have had some impact on production parameters and by extension, on the positive performance.

(IV) The Selected Products as Potential SPs

Krause and Kihwan (1991) postulate that in the process of economic growth, the

comparative advantage of agriculture declines, or shifts to other sectors – which in turn increases the demand for agriculture protection. They propose that the market for protection is at its strongest when agriculture loses this comparative advantage. In Barbados, the rise of services, and, to a lesser extent, manufacturing, have come at the expense of the comparative advantage of the agriculture sector.

Some of the policy and qualitative assessments – such as the role and importance of food security – are undoubtedly critical in assessing potential SPs. However, the purpose of the current paper is to provide some assessment based on quantitative data, which can then be used to complement the other social and socio-economic factors that policy makers need to consider when specifying WTO SPs.

As indicated earlier, actual import data can be used as a general proxy for the competitiveness of domestic products since it is assumed that distributors and wholesalers, consistent with producer theory and the profit maximisation assumption, would seek products from the most reasonable source that provides them with the greatest margin. Indeed, general assessments of prices in the period following the liberalisation of agricultural trade in 2000 revealed that in many instances, the gains from trade liberalisation and availability of cheaper imports accrued to importers and distributors more so than consumers. Demand is satisfied through a combination of domestic production and imports and, for a given level of demand, increased imports must of necessity be accompanied by reduced domestic production (discounting the lag response of production to signals from the market since the data is averaged for both six-year periods.)

Policy makers, first and foremost, need to be clear on the rationale behind the selection of specific products as SPs. Where there may be several competing considerations – e.g. food security, or protecting infant industries – a decision needs to be made on the primary factor influencing product selection as SPs. Is the main driver the economic contribution of the products? Livelihood security? Social considerations? Or simply tariff revenue concerns? This assessment is vitally important, as it would influence the manner

in which products are selected for potential SP designation. For example, where revenue inflow is the primary concern, policy makers would be more restricted to selection of those products that attract the highest duties. The assessment would then involve whether greater consideration is given to weighted average duty levied, and/or total quantity, for example. The question of the main driver behind SPs becomes infinitely more complex when there is the need to balance a basket of economic and social considerations. This, in fact, is the situation for Barbados.

The data suggests that these four products should be considered for potential SP designation – albeit for different reasons. In the case of carrot, extra regional imports as a percentage of total consumption have grown immensely. However, carrot production in Barbados remains significant and livelihood concerns and employment may be considerations. At the same time, any inclination towards the designation of carrot as a potential SP must be preceded by a comprehensive assessment of the product's competitiveness. This is necessary in all cases, but especially so for carrot given the significant import penetration that has occurred since 2000. Trade and price data reveal that, of the four products examined, carrot is the least competitive, with or without the addition of bound rates. Whilst designation as a WTO Special Product may mitigate some of the extra-regional import pressures, SP designation alone is not enough but must be matched by domestic programmes to improve the competitiveness of the product.¹⁰ In the absence of such programmes, the survival of the domestic product, to a large extent, then depends on the vagaries of other countries' domestic policies. In the long run, the survival and viability of any product, and indeed the agricultural sector in general, necessitates effective domestic control of policies for product development.

In the case of sweet pepper, extra regional imports in per capita consumption have been on the decline. Regional imports have been fairly stable, with domestic production as the beneficiary of expanded

domestic consumption. Based on import and price data, sweet pepper is more competitively placed than carrot. Of the four products considered, it is the least uncompetitive without the addition of bound rates and second to tomato with the relevant duty¹¹. Instituted policies should bear fruit in this area more readily than for some of the other products. In this regard, the adoption of technology such as greenhouses, and the use of higher yielding varieties have signalled positive future prospects for this product. Designation as SP would facilitate the policy space to allow such programmes to fully bear fruit. Additionally, this product offers some prospect for concentration on higher value niches – such as coloured peppers that are in demand in the tourism and hospitality sectors and which fetch higher prices – allowing for the Barbadian articulated strategy of competing on factors other than predominantly price. Within such a context, sweet pepper may make a very suitable candidate for SP designation as it would facilitate the policy space to allow relevant programmes to fully bear fruit.

Tomato and cabbage, the other two products considered, have unadjusted CIs that are lower than sweet pepper but higher than carrot. As such, they are better candidates than carrot but worse than sweet pepper. The recommendation regarding the desirability of the two as potential SPs would differ depending on whether CIs are considered with or without the additional duties. Without bound rates, cabbage has a better competitiveness index and it can be inferred that policies for improved competitiveness would yield results more quickly than for tomato since it has a lower variance from CI policy neutrality (i.e. a calculated CI of one). The differential between the two CIs, however, is small and, if the adjusted CIs are considered, tomato emerges as the more competitive product.

As a member of CARICOM, the modalities that affect Barbados' trading patterns will affect intra-regional trade. When selecting potential SPs, policy makers need to consider trade within the regional and bi-lateral contexts and whether the net effect is trade creating or trade diverting. For example, for those products that have

¹⁰ Competitiveness Enhancement for domestic products is already one of the planks of the Ministry of Agriculture in its Strategic Plan. However, more targeted programmes would be needed for carrots and products in similar challenging competitive positions.

¹¹ This result is expected given that the rate on tomato is nearly 40 percentage points above that for sweet pepper.

been subject to regional trade diversion, domestic policy makers could find that any efforts towards providing a protective or enabling environment at the multilateral level could be undermined by the free movement of the product at the regional level. Thus, the multilaterally negotiated safeguard against cheaper imported products (to facilitate local product development) could be undermined by the importation of relatively cheaper products from other members of the regional arrangement.

It is also important to consider the major source of imports (including the likelihood of shifting import sources) since, if the majority of the product is sourced primarily as part of a regional arrangement, a multilateral safeguard would be essentially ineffective. For example, pumpkin is domestically produced and is treated as a sensitive product, having been tariffed as part of WTO commitments¹². However, the majority of pumpkin (over 90%) is imported from within the region with little or no extra-regional imports. In this case, the designation of this product as a potential SP would amount to a nominal safeguard only given the free intra-regional trade. The designation of pumpkin as a WTO SP would not address the source of the concern – intra regional imports – and would in fact occupy a SP spot that may be better utilised for another product. In this case, rather than designation as a WTO SP, it would be more relevant to examine the allowable provisions under the Revised Treaty of Chaguaramas, such as Articles 150 and 151, which provide for safeguard measures and support to sensitive industries.

Based on a look at the four products – cabbage, tomato, sweet pepper and carrot – it appears that, with respect to potential SPs, the Barbadian agriculture sector would do well, in addition to demarcating potential threats on a regional and extra-regional basis, to concentrate on those products that are benefiting from some domestic programmes and, importantly, which are reaping benefits from those general and/or targeted programmes. These considerations should be complemented with those value added products that offer higher margins

and facilitate competition on factors other than solely price.

Whilst a general assessment, based on some quantitative indicators, was attempted on the four products, some other factors should be considered when formulating the list of potential SPs. These include social considerations such as the livelihood security for such producers and the food security objectives of the nation. After all, SPs is but one element of the agriculture negotiations, but Government must, of necessity, take into account the overall effect on the society as a whole. Such an assessment, which extends beyond an analysis of the trade and price competitiveness of particular crops, will impact on the final products to be designated as SPs. However, it is reiterated that given there is access only for a limited percentage of products to be designated as SPs, all relevant analyses need to be taken into account to ensure that the right mix of SPs are selected and that the products selected for SP designation do qualify based on the stated domestic policy objectives.

(V) Additional Issues for Consideration

The selection of possible SPs is far from the end of the issue for the country. Products then need to be prioritised according to defined parameters. It is these parameters that will determine the ranking for any of the four selected products. SPs are to receive more favourable treatment and discussions in the WTO are currently on-going on what constitutes 'more favourable treatment'. Any assessment of the possibility of a product for designation as SPs must include the types of modalities – principally tariff reductions – that could affect the product. Countries must pay attention to the applicable rates for the products and whether or not there exists any differential between the bound and applied tariff that would place the product lower down in the priority listing of products for potential SP designation¹³. For the products under consideration, there is no differential between the applied and bound rates and as such any reduction in the tariffs on these products will immediately impact on the applied rates. This may not be the case for some countries, and this fact needs

¹² Although tariffed as all other sensitive products, the maximum bound rate is not applied to extra-regional imports of pumpkins.

¹³ Tariff reduction is to be undertaken from WTO bound, rather than applied rates.

to be taken into consideration when these countries assess potential SPs. Where there are products with significant differential between the bound and applied rates, such that any tariff reduction does not affect the applied rate, designation as SP would provide not discernable border protection.

As a country that welcomes a considerable number of tourists each year, there is the need to isolate consumption of the resident population from that of the tourist population. Estimates of core consumption (i.e. consumption of the domestic population) and transitory consumption (based on tourist arrivals) would assist policy planning and development, including the designation of SPs and the identification of core quantities to satisfy normal domestic food security. It would also assist in identifying requirements in times of emergencies or natural disasters. For small developing countries with limited resources, more accurate and reliable data on domestic food needs would assist in ensuring that domestic resources are utilised in the most effective means. There is a tangential benefit for SPs as more efficient use of resources could free elements that could be used for the development of designated SPs.

The role and function of CARICOM bodies, CARICOM countries as a grouping, and the Small Economies Working Group within the WTO need to be taken into account. An assessment also needs to be undertaken of the net costs/benefits of a harmonised regional approach. At the regional level, CARICOM leaders need to give consideration to the effects of CARICOM country specific SP lists on the integrity of the CARICOM arrangement and the competitiveness of regional products in the regional market. Reductions in tariffs for some products will erode the competitiveness of some regional producers in the regional market.

Barbados and other CARICOM countries are participating in a number of negotiations. At the domestic and regional levels, there is the need to ensure consistency across fronts and that the most critical products receive consistent treatment across fora.

Many developing countries are questioning whether the emerging agreement under the Doha Development Agenda really has 'Development' at the

heart of discussions and whether the emerging deal is better than no deal at all. According to a recent Policy Brief from the autonomous think tank, Research and Information System for Developing Countries (RIS), the deal taking shape now offers limited economic gains for the developing world as a whole and many countries will be worse off. A recent World Bank estimate¹⁴ concludes that the trend in net trade for developing countries would fall from an average US\$24.3 billion in 2000 to US\$3.1 billion in 2015. The model also trends that middle income countries, a category which includes Barbados, will lose over 200% of net agricultural trade by 2015. The agricultural sector in small developing countries such as Barbados is at serious risk of marginalisation.

The assessment of the likely gains from participation in the negotiations is, of course, a country specific undertaking as the magnitude of gains and losses would vary from country to country. Nonetheless, when the current¹⁵ WTO market access proposals are examined, apart from the potential access to Special Products, the rest of the modalities do not augur well for the agricultural sector in Barbados and indeed many other small developing countries.

There is, however, the need to balance the wants and needs in one sector (agriculture) with the overall benefits that emerges for the entire country. Thus, for example, Barbados must weigh the outcome of negotiations not only from an agricultural perspective, but must take into account the balance resultant from commitments in the other sectors such as services and non-agricultural goods as well. In any event, the net effect on all the sectors must be positive if the negotiations are to yield any benefits for small countries.

(VI) Conclusion

This paper looked at the potential of and desirability for carrot, cabbage, tomato and sweet pepper to be designated as potential SPs by Barbados. The data examined did provide some indicators of the desirability of the four products as potential SPs. Of the four products, carrot is the least likely

¹⁴ Table 7.1, p.117., *Global Agricultural Trade and Developing Countries*. World Bank simulations with linkage model based on release 5.4 of the GTAP data.

¹⁵ As at the middle of June 2006.

candidate for designation as SPs given the parameters considered. The positioning of the other products would depend on the relative importance attached to factors such as food security.

The competitiveness of the local product was one of the factors considered in the assessment of the four products as potential SPs. In the long run, the competitiveness of the product must be considered when analysing what is designated as 'Special', whether such designation is confined to domestic policy, the WTO or both. Products must exhibit some ability to compete if domestic production of these commodities and the maintenance of the country's food security are to continue in the foreseeable future. With continued liberalisation, tariff and other forms of protection would be able to 'shield' a product for only a limited time, before such protection is eroded. None of the four products considered were currently competitive without the addition of the tariff, and even with the tariff, carrots remained uncompetitive. Policy makers in Barbados would need to address issues of competitiveness as a matter of urgency if production of some commodities is to be sustainable in the long run.

Generally, econometric models have not included food security as a persuasive argument for positive protection (Krause and Kihwan (1991)). Nonetheless it is a valid argument that is articulated by countries such as Japan, Switzerland and Korea – all of which attach high priority to the provision of a certain amount of food from domestic sources. The same argument has been made on the domestic front. There is, at the same time, the need to rethink the issue of special products, categorising those products that are important for food security and other national developmental objectives and those that may be deemed 'Special Products' within the WTO context – that is susceptible from an import penetration perspective that could undermine local objectives. This would facilitate the identification of the core set of SPs from a WTO perspective and ensure that the country makes maximum use of the flexibility for those products that are actually, or potentially, suffering from market access penetration that could impair domestic producers.

It is clear that potential WTO SP designation is no easy task. Such selection will potentially affect the composition and direction of the sector. Even for the four products examined, any recommendation on selection would depend on the number of products that Barbados is allowed to designate as SPs. Selection involves undertaking a cost-benefit scenario for each potential product, as well as prioritisation if the 'best' products – from a domestic policy perspective – are to be selected. It is believed that the quantitative data examined for the four products can assist in such product selection.

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